

THE NEXT 100 YEARS
OF FLIGHT



FEDERAL AVIATION ADMINISTRATION

PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

FY 2004

MISSION/VISION STATEMENT

**TO PROVIDE THE SAFEST, MOST EFFICIENT
AEROSPACE SYSTEM IN THE WORLD.**

FAA AT A GLANCE

**ESTABLISHED
1958**

**HEADQUARTERS
800 INDEPENDENCE AVENUE, SW
WASHINGTON, DC 20591**

**FY 2004 BUDGET
\$13.871 BILLION**

**TOTAL EMPLOYEES
47,877**

**HEADQUARTERS
4,228 EMPLOYEES**

**REGIONAL OFFICES
38,957 EMPLOYEES**

**TECHNICAL CENTER — ATLANTIC CITY, NJ
1,298 EMPLOYEES**

**AERONAUTICAL CENTER — OKLAHOMA CITY, OK
3,394 EMPLOYEES**

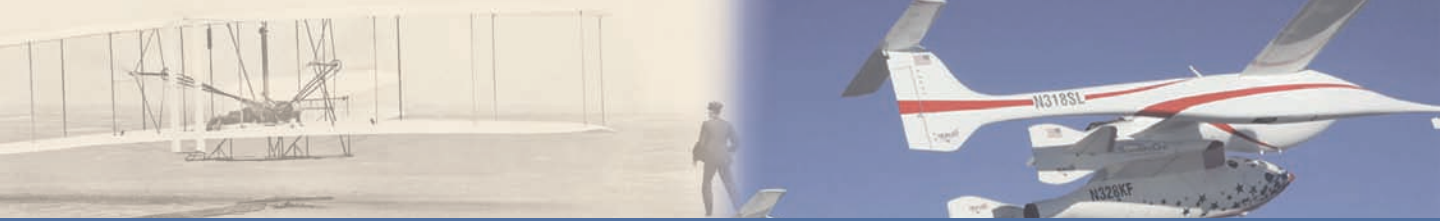


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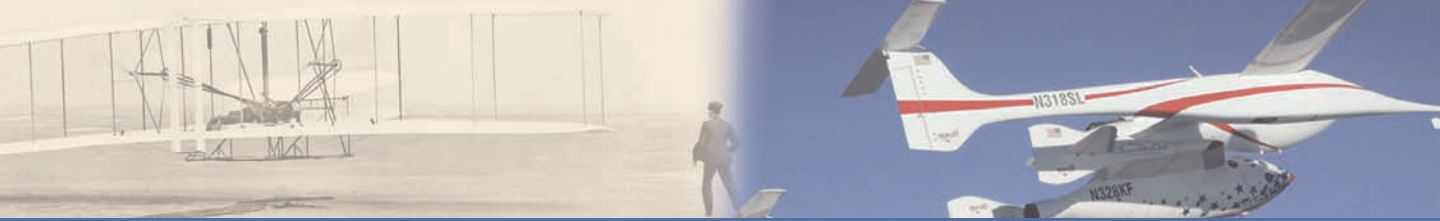
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A MESSAGE FROM THE ADMINISTRATOR

November 1, 2004

The Federal Aviation Administration (FAA) is making great strides in becoming a performance-based organization. This year has been one of significant accomplishments and challenges for us.

- **Safety.** Safety is our number one priority. The past three-year period has been the safest in aviation history for commercial flight, and the number of general aviation accidents continues to decline as well.
- **New Frontiers.** We launched a new era in space travel. SpaceShipOne—the first private manned space vehicle licensed by FAA—successfully completed two flights to the edge of space and won the \$10 million Ansari X Prize.
- **Reorganization.** We are implementing the most sweeping organizational change in FAA's history with the establishment of a new Air Traffic Organization. This change is going to make FAA a much more accountable, efficient, and performance-oriented organization. It is a best practice that we see paying real dividends to industry and the traveling public.
- **International Leadership.** We signed a number of bilateral agreements with foreign countries, spreading the reach of aviation safety around the globe.
- **Growth without Gridlock.** Achieving growth without gridlock is especially challenging in light of the financial uncertainties facing the industry. A first-ever conference was held to change air traffic control's approach to handling delays throughout the system. We instituted "express lanes in the sky" and convened daily morning conferences with the airlines to deal with weather and congestion. This partnership approach often stops delays before they occur. Separately, we reached an historic agreement with the airlines serving Chicago's O'Hare International Airport. We brokered schedule changes in Chicago, reducing congestion during peak hours by more than 30%.
- **Labor Agreements.** We are preparing for labor negotiations with FAA's two largest unions—the National Air Traffic Controllers Association and the Professional Airway System Specialists, which together represent more than 22,000 FAA employees. We are reviewing existing agreements and will enter these negotiations with the goal of reaching new contracts that are fair to our employees and fiscally responsible.
- **Competitive Sourcing.** In support of the President's Management Agenda, we initiated an A-76 review of our automated flight service stations to ensure that the government is getting the most from the taxpayer's investment. These facilities, which are generally in need of repair, cost more than \$500 million annually to operate. Whether FAA provides these services using government employees or a private sector contractor, we expect to realize more than \$400 million in savings over a five-year period as a result of this process.



- **Organizational Excellence.** The Association of Government Accountants (AGA) awarded us a Certificate of Excellence in Accountability Reporting for our *FY 2003 Performance and Accountability Report*. We were honored to receive the award and are up to the challenge posed by AGA of continued improvement.

Our *FY 2004 Performance and Accountability Report* provides a detailed accounting of our service to both the flying public and the aviation industry. The financial and performance data contained in this report are reliable and complete. To reflect the increasing emphasis on accountability within the organization, we added 18 new performance goals this year. We attained 24 out of 30 goals in the areas of safety, capacity, international leadership, and organizational excellence. While I am proud of what we achieved, we hope to improve on this record.

We also achieved an unqualified opinion from our auditors on our financial statements and implemented a new core financial management system that supports our efforts to become a performance-based organization. Improving our overall financial management performance is an element of our organizational excellence goal.

Internally, we assess the vulnerability of our programs and systems through the Federal Managers' Financial Integrity Act (FMFIA) of 1982. I am pleased to report that taken as a whole, the management controls and financial management systems in effect from October 1, 2003, through September 30, 2004, provide reasonable assurance that the objectives of both sections 2 and 4 of FMFIA are being met. Management controls are in place and our financial systems conform to key government-wide standards. With the implementation of our new financial management system, we have made significant progress toward meeting the requirements of the Federal Financial Management Improvement Act of 1996.

As this report makes clear, our efforts to provide a safe, secure, and efficient global aerospace system, together with our commitment to the highest standards of efficiency and integrity, will ensure that FAA continues to deliver an exceptional return on investment on behalf of the American taxpayer for the next 100 years of flight.

Marion C. Blakey
Administrator



Mike Melvill, SpaceShipOne pilot; Administrator Blakey; Doug Shane, SpaceShipOne Director of Flight Operations; and Burt Rutan, President of Scaled Composites, stand with SpaceShipOne to celebrate Scaled Composites winning the Ansari X Prize.

MANAGEMENT'S DISCUSSION AND ANALYSIS





MANAGEMENT'S DISCUSSION AND ANALYSIS

FAA is responsible for overseeing the largest, most complex, and safest aviation system in the world. It not only sets the regulatory and operational standards for the United States, but also effectively sets the bar for aviation around the world—and has for almost half a century.

In the first decade of the 20th century, only visionaries could imagine that air travel would be a driving force behind the phenomenal growth of the American economy. As we enter the 21st century, the future of aviation is just as hard to imagine as it was 100 years ago, as the industry finds itself facing terrorism, structural change, and a fluctuating global economy.

From 1926, when President Calvin Coolidge initiated Federal oversight of air safety in the United States by signing the Air Commerce Act, to the creation of the Federal Aviation Agency in 1958, to our modern-day incarnation, FAA and the aviation community have grown and worked together. We have shaped an industry that—like shipping and rail before it—conquered distance in a new way, lowered transportation costs, and created new opportunities that transformed the commercial landscape.

Today's FAA faces the challenges of the next 100 years of flight with the help of dedicated employees at its headquarters in Washington, DC, in regional offices across the country, and in facilities around the world. We fulfill our mission through four lines of business that work together to create and maintain the world's preeminent national airspace system. These lines of business are:

- **Air Traffic Organization (ATO):** Responsible for moving air traffic safely and efficiently. The customers of this performance-based organization are commercial and private aviation and the military. ATO employees are the service providers—the 38,000 controllers, technicians, engineers, and support personnel whose daily efforts keep airplanes moving. ATO is aligned around the services delivered to its customers.
- **Regulation and Certification:** Oversees the safety of aircraft and the credentials and competency of pilots and mechanics, develops mandatory safety rules, and sets the standards that have helped make air travel one of the safest modes of transportation in history.
- **Airports:** Provides leadership in planning and developing a safe, secure, and efficient airport system; manages the Airport Improvement Program (AIP), which provides grants to state and local airport authorities; enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; and establishes regulations for the safe operation of commercial service airports and inspects airports for compliance.
- **Commercial Space Transportation:** Oversees the safety of commercial space launches and regulates the commercial space industry.

A YEAR IN HIGHLIGHTS

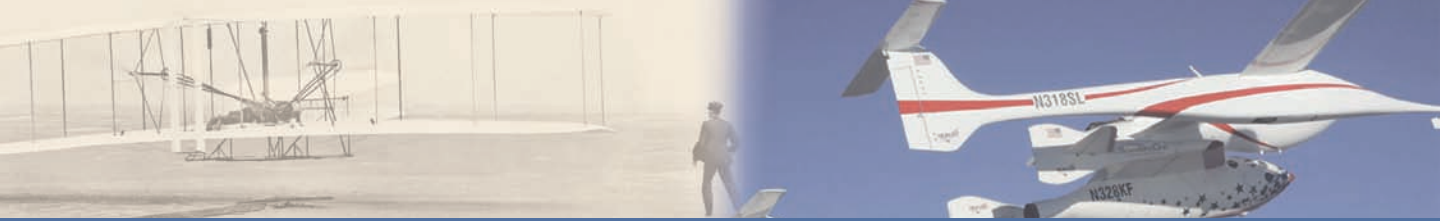
FAA, an agency of the U.S. Department of Transportation (DOT), is charged with promoting the safety and efficiency of our national airspace system. FAA establishes and enforces regulations and oversees inspections that maintain the integrity and reliability of that system, which has fueled our economy and helped ensure our Nation's prosperity for more than 50 years.

With a workforce of 47,877 professionals and an annual budget of approximately \$13.9 billion, FAA operates and maintains the complex air traffic control system and the facilities and equipment that support it. Almost 15,000 controllers manage more than half of the world's air traffic, helping to ensure ever-increasing levels of safety. The agency conducts research to improve aviation safety and efficiency and provides grants to improve 3,344 public-use airports in the United States. FAA also regulates commercial space launch activities to ensure public safety.

FAA Administrator Marion C. Blakey led the agency to a number of significant accomplishments in 2004. On her watch, aviation safety continued to improve at an impressive pace, and the agency renewed its pledge for constant vigilance to safeguard the flying public. As a result, FAA remains on track to meet the ambitious goal of reducing commercial air carrier fatal accidents by 80% from the 1994–1996 baseline. To help realize that goal, we continued to introduce new technologies to keep passengers safe both in the air and on the ground. In an effort to significantly reduce congestion and delays at airports nationwide, FAA also invoked new authority granted in its reauthorization legislation.

During fiscal year (FY) 2004, FAA employees

- Implemented the first year of FAA's *Flight Plan*, a strategic plan that will guide the organization into the next century of flight. The plan sets specific performance goals in four overarching areas: safety, capacity, international leadership, and organizational excellence. It also sets the direction for the aviation community in a global transportation environment.
- Worked to win legislative support for Vision 100—the Century of Aviation Act. This four-year reauthorization bill provides \$60 billion in economic power and calls for 665,000 new jobs through airport improvement projects throughout the country. Vision 100 also provides the agency with funds for important environmental and clean air initiatives, as well as expanded authority to work collaboratively with industry to reduce delays at the Nation's airports.
- Recorded the lowest commercial aviation fatal accident rate ever (based on a three-year average). We partnered with industry to achieve an unprecedented safety record and promote a culture of safety throughout commercial aviation.
- Made significant progress in reducing general aviation accidents in Alaska through initiatives such as FAA's CAPSTONE safety program.
- Issued new certification rules for light-sport aircraft that improve the safety and affordability of recreational flying. FAA created two new certificates that cover special light sport and experi-



mental ultra-light aircraft, pilots, and mechanics. We expect these new rules to encourage the return of thousands of pilots who left aviation because of cost concerns.

- Embraced a new era in commercial space transportation, as the first privately built manned spacecraft successfully reached sub-orbital space on June 21, 2004.
- Engaged in an active, collaborative approach to countering delays and congestion, which returned in FY 2004 as air traffic levels approached pre-September 11, 2001, levels. FAA commissioned new runways in Houston, TX, and Orlando, FL, during FY 2004. We worked with industry to develop new air traffic procedures that will allow for growth without gridlock. We also began to work with the airlines to change flight schedules to ease delays.
- Emphasized environmental stewardship. FAA worked with the Center of Excellence for Aircraft Noise and Aviation Emissions Mitigation to develop quieter, cleaner aircraft. The center conducts research into the environmental impact of aviation as it continues to grow.
- Bolstered efforts with regard to international leadership. We continue to provide assistance to other countries to improve aviation safety and efficiency throughout the world. Among our most important achievements was our success in working with the International Civil Aviation Organization (ICAO) to adopt global environmental standards and in executing three bilateral agreements, with one new agreement set to be completed in FY 2005.
- Continued to improve organizational efficiency and effectiveness by achieving six out of seven organizational excellence goals, which included controlling costs, hiring mission critical positions, completing critical acquisitions, and strengthening information security.

FAA continues to face challenges in reducing the number of general aviation fatal accidents, boosting system capacity to handle increased traffic, and achieving new organizational excellence goals. To address these challenges, we maintained a focus on aviation as a global system and worked closely with international organizations to seek global solutions to safety, routing, procedural, technology, and environmental issues.

We also continued to work with airports around the country to boost system capacity by analyzing chokepoints, commissioning new runways, and taking advantage of precise satellite navigation technologies to increase efficiency. Through such improvements, we were able to increase system capacity, maintain efficiency, and minimize delays.



FAA Helps Launch a New Era in Space Travel

On June 21, 2004, the world witnessed the dawn of a new era in space travel, as the first private manned space vehicle licensed by FAA soared beyond Earth's atmosphere. SpaceShipOne reached a record altitude of 328,491 feet (approximately 62 miles or 100 km), making pilot Mike Melvill the first civilian to fly a spaceship out of the atmosphere and the first private pilot to earn astronaut wings. Melvill successfully reached suborbital space for a second time on September 29, 2004.

In marking SpaceShipOne's success, FAA Administrator Marion Blakey said, "The first century of flight began with 12 seconds over Kitty Hawk that would change the world. The second century begins with the advent of passenger travel into space. Our horizon will never be the same, and FAA is leading the way."

ACHIEVING RESULTS

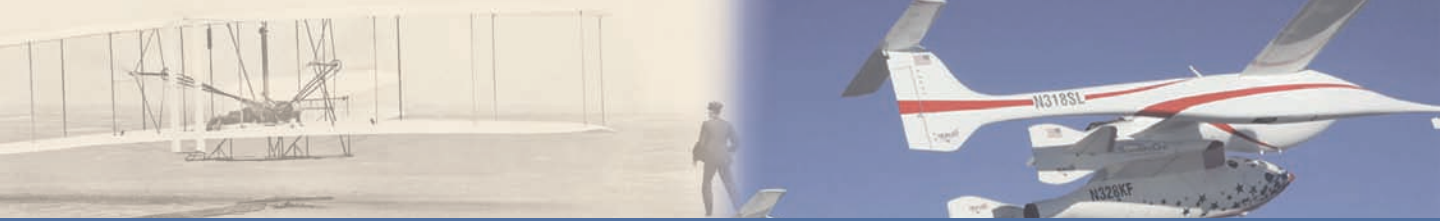
FAA is charged with promoting the safety and efficiency of the Nation's aviation system. With broad authority to enforce safety regulations and conduct oversight of the civil aviation industry, we maintain the system's integrity and reliability. A strategic plan, annual business plans, human capital plans, and the annual Performance and Accountability Report create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance shows what is being accomplished and reinforces accountability for the taxpayer money being spent.

In FY 2004, FAA marked the first year under its *Flight Plan*, a long-term strategic plan that charts the agency's goals through FY 2008. It provides the framework to match resources with initiatives for long-term change. It not only focuses on FAA activities, but it also sets the direction for FAA and the national air and space community in a global transportation environment. It sets forth the agency's goals and the performance measures to assess progress in meeting them. These are the goals that we must meet to address the challenges facing aviation, as well as maintain U.S. leadership in aviation. Our *Flight Plan* is tightly aligned with DOT's mission, vision, goals, and performance measures.

This year, FAA had 30 performance measures and targets that focused our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational excellence. As part of our efforts to continuously improve reporting, we redesigned the FAA website and added a section that provides easy access to *Flight Plan* performance and results (www.faa.gov/aboutfaa/performance.cfm).

Our performance measures, listed in the "FY 2004 Performance at a glance" chart, support FAA's mission to provide citizens with a safe, secure, and efficient global aviation system. Our four strategic goals are:

- **Safety.** Safety is not only a top priority; it is also an economic necessity. People will fly only if they feel safe. They must trust the system and that trust must be earned. Reducing the risk of aviation accidents remains a top priority. To enhance safety, we continued to focus on the challenge of reducing operational errors and runway incursions. A number of coordinated programs and safety initiatives enabled us to further reduce the commercial aviation accident rate, the number of general aviation accidents, and the number of runway incursions. In addition to these results, we were successful in ensuring that there were no commercial space launch accidents. In FY 2004, we achieved eight of nine safety goals.



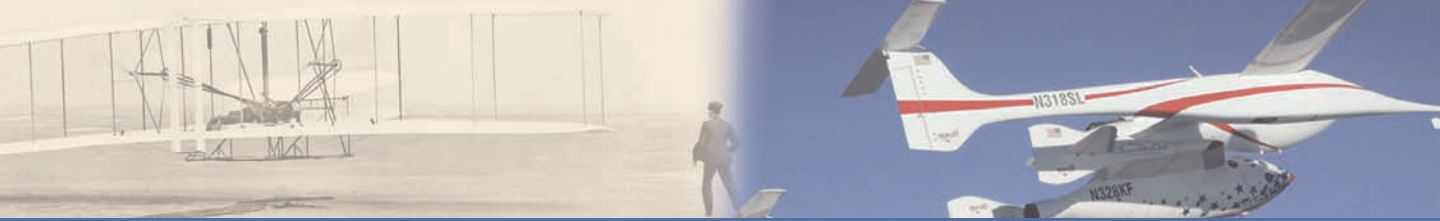
- **Capacity.** Aviation capacity is the backbone of air travel. Aviation can grow only if capacity grows. We aim to achieve any increases in capacity in an environmentally sound manner. Initiatives designed to boost system efficiency were successful in improving on-time arrival and airport capacity and efficiency while reducing exposure to aircraft noise and emissions. In FY 2004, we achieved four of eight capacity goals.
- **International Leadership.** FAA's goal is to make the international aviation system as safe and efficient as the one enjoyed in the United States. This year, we provided technical assistance and training to assist more than 30 countries in improving aviation safety and efficiency. During FY 2004, we continued to promote safety by broadening the international network of partnerships with civil aviation authorities around the world. In FY 2004, we achieved all six of our international leadership goals.
- **Organizational Excellence.** To fulfill our mission, we must be a world-class organization. This requires greater fiscal responsibility, stronger leadership, more collaboration, and performance-based management. During FY 2004, we continued to address challenges identified by DOT's Office of Inspector General (OIG). We successfully enhanced acquisition management and implemented a new accounting and acquisition system to improve financial management. Although we made great strides in improving the business processes that support efforts to improve aviation safety and system efficiency, we did not meet all of our organizational excellence goals. We did, however, succeed in meeting our goals for customer satisfaction and major acquisition projects. In FY 2004, we achieved six of seven organizational excellence goals.

Despite the challenges, FY 2004 was a year of impressive success for FAA. Although air traffic still remains 2.4% below pre-September 11, 2001, levels, passengers are regaining confidence in the system and are returning to the skies. As traffic increases, so do the challenges we face in building organizational excellence to improve safety and increase capacity. Through the combined efforts of our employees and industry partners, we were able to achieve 24 of 30 goals—an 80% success rate. The Performance at a glance chart on the following pages provides a snapshot of the results we achieved.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FY 2004 PERFORMANCE AT A GLANCE

Performance Measure	FY 2004 Target	FY 2004 Results	FY 2004 Status	FY 2005 Target
SAFETY				
Commercial Air Carriers				
Fatal Accident Rate	0.028	0.021*	●	0.023
Single Safety Index	1	1	●	1
Injuries from Turbulence	18	9*	●	N/A**
General Aviation Accidents				
Fatal Accidents—Overall	349	340*	●	343
Accidents—Alaska	125	100*	●	120
Operational Errors	629	637#	▲	610
Runway Incursions	40	28#	●	36
Commercial Space Launch Accidents				
Fatalities/Injuries	0	0	●	0
Property Damage	0	0	●	0
CAPACITY				
On-time Arrivals	82.10%	79.08%#	▲	82.20%
Aircraft Noise Exposure	2%	23%#	●	3%
Aviation Fuel Efficiency	1%	4.5%	●	2%
Airport Capacity				
Airport Daily Arrival Capacity (35 Operational Evolution Plan [OEP] airports)	51,332	51,587#	●	51,999
Airport Daily Arrival Capacity (eight metropolitan areas)	21,290	21,233#	▲	21,465
Airport Arrival Efficiency Rate (35 OEP airports)	95.67%	95.03%#	▲	95.76%
Annual Service Volume (new runways opened)	2	2	●	1
Operational Availability	99%	98.95%#	▲	99%



FY 2004 PERFORMANCE AT A GLANCE

Performance Measure	FY 2004 Target	FY 2004 Results	FY 2004 Status	FY 2005 Target
INTERNATIONAL LEADERSHIP				
Intellectual and Financial Assistance	20%	177%	●	40%
Bilateral Agreements	2	3	●	4
Technical Assistance	6	30	●	12
Technology and Procedures	75%	100%	●	N/A**
Global Environmental Standards	2	3	●	100%
Reduced Vertical Separation Minimum	85%	90%	●	N/A**
ORGANIZATIONAL EXCELLENCE				
Acquisitions	80%	91%	●	80%
Cost Reimbursable Contracts	180	135	▲	85%
Customer Satisfaction—Commercial Pilots	63	65	●	64
Cost Control	10%	10%	●	20%
Information Security	90%	100%	●	90%
Performance Plans	80%	84.56%	●	85%
Mission Critical Positions	3%	28%	●	6%
<i>Flight Plan</i> (This target itself is not included when calculating the percentage of targets achieved.)	90%	80%	▲	90%

● Green: Goal Achieved ▲ Red: Goal Not Achieved

Notes:

* Numbers are preliminary. The National Transportation Safety Board (NTSB) will make final data available in March 2005.

** Target is not included in the *Flight Plan* for 2005.

These are preliminary estimates. Final data will be available between November 2004 and May 2005.

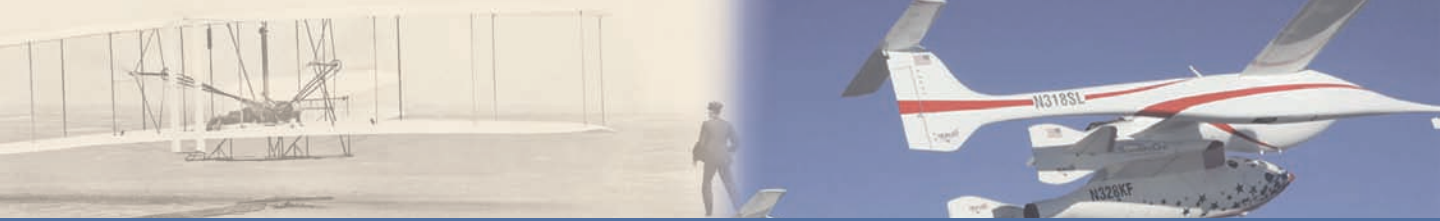
MANAGING PERFORMANCE

In FY 2004, we launched our ambitious strategic plan to help manage and measure performance. In the first year of the *Flight Plan's* implementation, our goal was to meet at least 90% of our performance targets (27 out of 30).

As part of our efforts to deliver results—enhanced safety, increased capacity, international leadership, and organizational excellence—we continued to phase in a pay-for-performance system that is unlike traditional government compensation systems. At the end of FY 2004, 78% of FAA employees were included in this new plan, which includes pay increases for organizational success. As the agency continues to achieve its goals, employees included in the pay-for-performance system will get a pay increase.

We faced a number of challenges in implementing the *Flight Plan* and achieving results. These challenges included the following:

- The financial difficulties facing the airlines and aviation manufacturers affect their ability and willingness to equip aircraft with the new technologies that will enhance safety and capacity. Those difficulties also affect FAA, which is primarily funded by the Airport and Airway Trust Fund from taxes on airline tickets.
- Large capital investments in facility, infrastructure, and agency human capital needs will depend largely on our ability to closely link budget to performance and also in part on our ability to fund such operations and responsibilities.
- Our ability to improve safety or expand capacity in the United States and in the international arena depends in part on the willingness of authorities at the state, local, and international levels to cooperate and collaborate in areas such as building new airports, expanding runways, and implementing new technologies.
- Emerging threats to national or homeland security may cause FAA priorities to shift to meet new responsibilities.



SAFETY

GOAL: Achieve the lowest possible accident rate and constantly improve safety.

Safety is our primary responsibility. It is central to the public’s interest and the economic health of the aviation industry. Although commercial aviation continues to be one of the safest forms of transportation, the public demands continued improvement in safety. General aviation also plays an important role in both the U.S. transportation system and the economy. We continue to focus our efforts on reducing the incidence of all types of general aviation accidents.

FAA’s *Flight Plan* establishes eight specific objectives and outlines numerous initiatives to maintain the lowest aviation accident rates ever recorded. We recognize that complacency will undermine the gains in this area, and we therefore make continuous improvement in overall safety an essential task.

FAA introduced Commercial Space Launch Accidents as a new safety goal in FY 2004. Commercial space launches generate tremendous benefits to society by delivering payloads such as telecommunications satellites and remote-sensing devices to orbit. FAA continued to maintain a perfect record of no fatalities or property damage caused by a commercial space launch.

The results of our continuing safety goals are described in the following pages for each performance chart.



America’s Runways: The Safest in the World

Runway safety at the Nation’s airports continued to improve in FY 2004. As runway incursions continued to decline, serious incursions, for which there is some risk of collision, dropped significantly between FY 2000 and FY 2004. For the third consecutive year, there were no serious incursions involving two large commercial jets.

FAA continues leading an industry-wide effort to improve runway safety through increased education, training, and awareness, along with new technology and improved airport runway markings and lighting. To prevent runway accidents, FAA delivered a new technology called the Airport Movement Area Safety System (AMASS) to 34 airports and is deploying the new Airport Surface Detection Equipment Model X (ASDE-X) to another 25 airports.

One of the *Flight Plan*’s performance targets is to reduce the most serious types of runway incursions (Category A and B) by at least 48%, with no more than an average of 27 serious incursions per year by FY 2008.

Commercial Air Carrier Fatal Accident Rate

In FY 2004, FAA and the aviation industry recorded unprecedented success in preventing commercial air carrier fatal accidents, capturing the lowest three-year accident rate in the history of U.S. civil aviation. Our focused safety agenda with its emphasis on using the latest technology to break the chain of events that lead to accidents, along with strong partnerships with industry, continues to keep the skies safe for commercial airspace passengers.

While maintaining our regulatory and enforcement role, we continue to partner with the aviation community to improve safety. This partnership is reflected in three basic long-term strategies: (1) prevent accidents by addressing recurrent causes, (2) improve certification and surveillance, and (3) share safety data and information with aviation partners. These strategies are at the heart of our significant and long-term safety programs.

We also worked to increase aviation safety by preventing fuel tank explosions. In addition to more than 60 directives aimed at preventing ignition sources, we began working on a proposal to outfit certain large commercial jets with equipment that would virtually eliminate these accidents. The proposed systems replace oxygen in a jet's fuel tank with an inert gas, preventing the potential ignition of flammable vapors. FAA researchers have produced a lightweight system with no moving parts, and the cost is relatively low compared with previous proposals.

We continued our efforts to improve the use of onboard technology that can enable pilots to navigate aircraft to any point in the world by using only geographic coordinates. Required Navigation Performance (RNP) is an important step toward moving the United States from an exclusively ground-based navigation system to one located within the aircraft itself. By providing pilots with precise guidance to all runways, RNP can help prevent two major types of accidents—controlled flight into terrain and accidents that occur during approach and landing. In addition, RNP will enable pilots to land in weather that would ordinarily require diversion to other airports.

In addition to these safety initiatives, we engaged in hands-on preventive measures, such as increased security screening of cargo to root out fireworks and other hazardous materials. Those efforts helped detect many undeclared hazardous materials, allowing FAA to safeguard airline passengers.

General Aviation Fatal Accidents

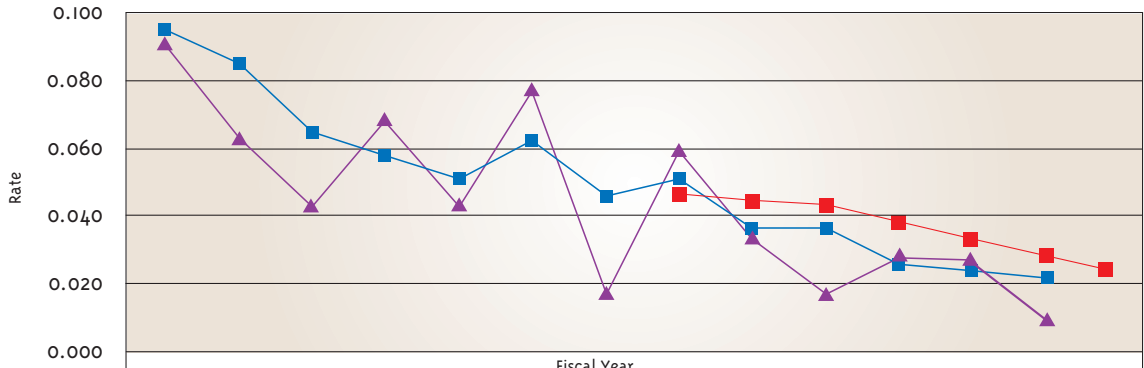
Although most people are familiar with FAA's role in commercial aviation, they may not be aware that we also oversee the safety of almost 300,000 general aviation aircraft in the United States, including single-seat home-built airplanes, rotorcraft, balloons, and highly sophisticated extended-range turbojets. General aviation activities include student training, crop dusting, fire fighting, law enforcement, news coverage, sightseeing, industrial work, on-demand air taxi service, and corporate transportation, as well as personal and recreational flying.

We continued to work proactively to meet our goal of reducing general aviation accidents. Because of the challenges of weather and terrain and the wide use of general aviation as a means of transportation in Alaska, our *Flight Plan* focuses specifically on reducing general aviation accidents there. Two programs in particular, Circle of Safety and CAPSTONE, appear to be making a difference. Circle of Safety is a consumer education program that works with passengers and organizations to share responsibility and take a more active role in their own flight safety. CAPSTONE helps provide pilots with information on their positions relative to terrain, as well as real-time weather information in the cockpit.

As another strategy for reducing general aviation fatal accidents, we established the Joint Steering Committee (JSC) in partnership with industry. JSC brings together key people from the general aviation community and the agency. This group met for the second time in July 2004 and established a new focus: (1) analyzing recent accidents to note emerging trends—for example, the shift in using aircraft more for transportation and less for recreational flying; (2) identifying specific new interventions that address major causes of accidents, such as formal guidance (FAA Advisory Circulars), instructional articles in magazines, and web-based materials and interactive training aids; and (3) achieving consensus on effective new strategies and interventions, regardless of whether the effort is carried out by government or industry.

Comparison of Air Carrier Fatal Accident Rates

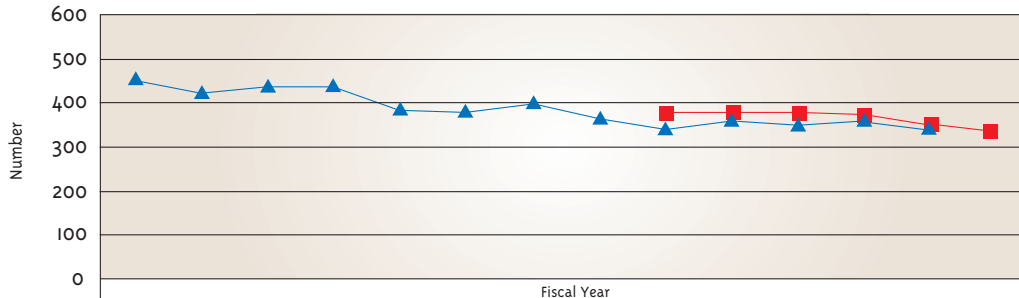
Per 100,000 Departures



- ▲ Fatal Accident Rate
- 3-Year Average
- Target

P= Preliminary. Data available March 2005.
 *FY 2003 0.024P to 0.024 actual

Number of General Aviation Fatal Accidents



- ▲ Actual
- Target

P= Preliminary. Data available March 2005
 * FY 2003 360P to 366 actual.

Operational Errors

One of the fundamental principles of aviation safety is separation—the need to maintain a safe distance from other aircraft, terrain, obstructions, and restricted airspace. Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error occurs when controllers fail to apply or follow the procedures that enforce separation and allow aircraft to end up too close to each other or to an obstruction. To differentiate between technical violations and more severe operational errors, our performance measure focuses on the number of highest severity cases: Category A and B errors. These classifications are based on a point scale rating of three factors—vertical and lateral distances, closure rates, and flight paths—as well as on the level of air traffic controller oversight. Category A errors (high severity) rate 90 or higher. Category B errors (moderate severity—uncontrolled) rate between 40 and 89.

While we did not meet our goal of reducing Category A and B operational errors to 629 or fewer, we are making progress. Last year, we exceeded our performance target of 642 Category A and B errors by 6%. This year, we missed our performance target of 629 errors by slightly more than 1%. We will continue our efforts to better understand and control the human factors that cause operational errors. We also will employ a focused strategy to further reduce errors and develop an ATO quality assurance plan. In addition, we plan to implement a safety management system to anticipate emerging risks and monitor the effectiveness of our risk mitigation strategies.

Runway Incursions

A runway incursion is any occurrence involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard or results in a loss of separation with an aircraft taking off, intending to take off, landing, or intending to land at an airport. Reducing runway incursions lessens the probability of accidents that involve fatalities, injuries, and significant property damage. Our performance measure focuses on the number of Category A and B runway incursions, the highest severity events that present the most serious risk of collision. Category A incursions occur when separation is decreased and participants take extreme action to narrowly avoid a collision or the event results in a collision. In Category B incursions, a significant potential for collision exists.

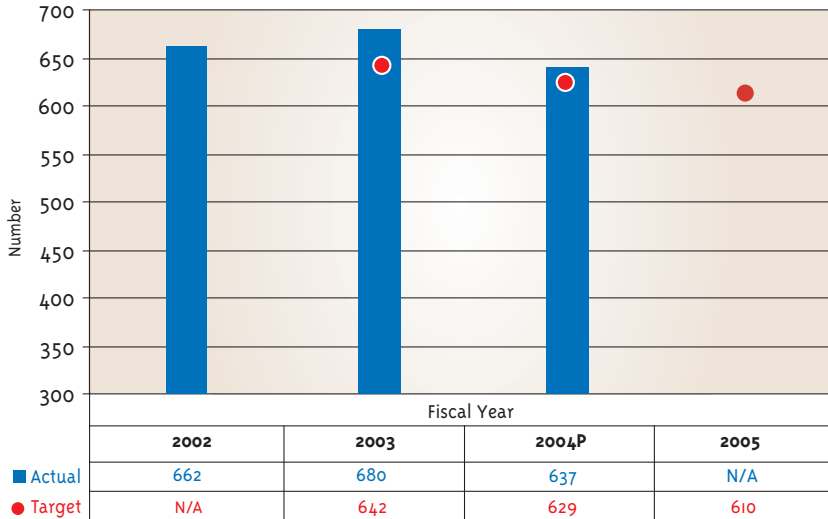
FAA and industry have made progress in reducing runway incursions. There were 28 of the most serious types of runway incursions (preliminary estimate), significantly lower than our FY 2004 goal of 40. This performance continues a downward trend that began five years ago and reflects a 12.5% decrease from FY 2003.

To help reduce the number of serious runway incursions, our Office of Runway Safety developed and coordinated efforts with a variety of education and awareness materials focused on air traffic controllers, pilots, and vehicle operators. Other tools, such as air traffic control memory aids, better airport surface markers, and public service announcements, have contributed to the reduction in incursions.

A new runway technology system was prepared for deployment in FY 2004 to curb the threat of runway collisions at major U.S. airports. Airport Surface Detection Equipment, Model X (ASDE-X) was first commissioned at General Mitchell International Airport in Milwaukee, WI. It is the first phase of equipment that will eventually incorporate safety data derived from multiple airport sensors to help controllers detect potential runway collisions. Enhancing FAA's runway safety initiative, ASDE-X equipment maps moving objects on airport grounds or approaching by air. After this equipment was deployed in Milwaukee, FAA began preparing to install it at 25 other U.S. airports.

Number of Operational Errors

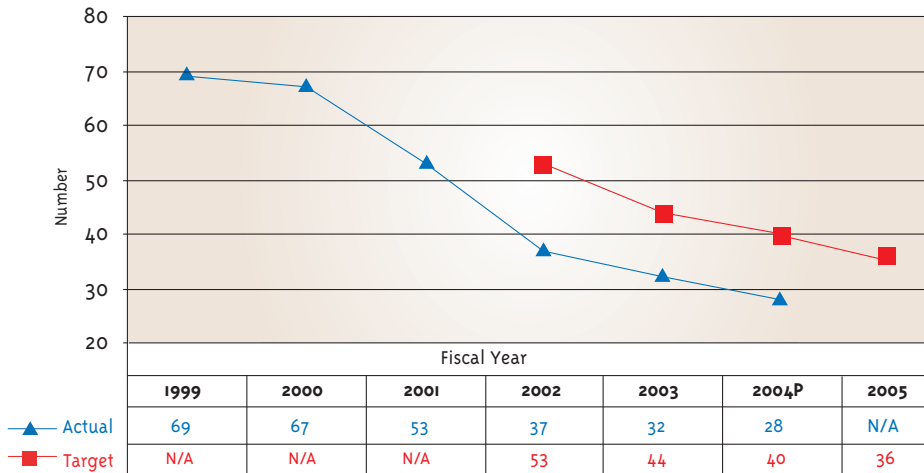
Highest Severity – Category A & B



P= Preliminary. Data available early 2005.

Number of Runway Incursions

Highest Severity – Category A & B



P= Preliminary. Data available early 2005.

CAPACITY

GOAL: Work with local governments and airspace users to provide capacity that meets projected demand in the U.S. airspace system in an environmentally sound manner.

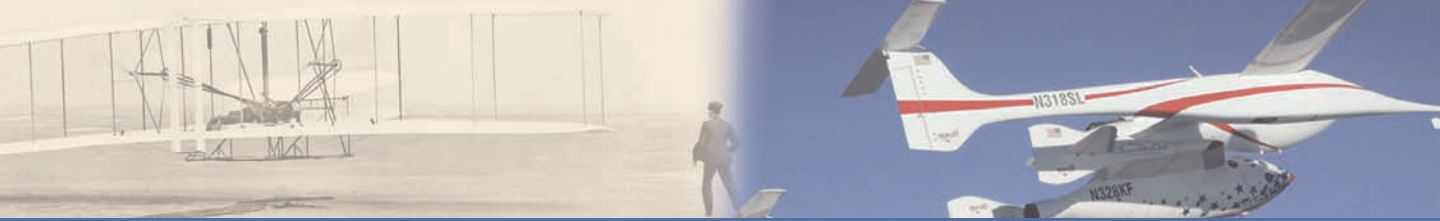
After the terrorist attacks of September 11, 2001, the demand for air travel decreased dramatically. While traffic has increased over the past three years, FAA forecasts suggest that it will not fully rebound until FY 2006.

While the airlines continue to struggle with the effects of September 11 and to reinvigorate their industry, we are preparing for a return to heavy demand. During FY 2004, work continued with local governments and airspace users to improve the design and performance of both aircraft and ground systems. These improvements will accommodate more traffic while easing delays; increase safety and security while addressing noise and air quality; and foster efficient, predictable, and flexible domestic and international air travel.

As airspace systems become ever more interconnected, additional partnerships have been developed within the national and international aviation community. We continue to focus on aviation as a global system and work closely with international organizations to seek global solutions to safety, routing, procedural, equipment, and environmental issues.

FAA added three new capacity-related performance goals in FY 2004. Detailed descriptions of continuing capacity goals appear for each performance chart in the following pages. Highlights of our accomplishments toward our new goal areas included:

- **Aviation Fuel Efficiency:** There is growing concern over aviation's contribution to both global climate change and local air quality. Like noise, aviation emissions are becoming a major environmental concern around airports, and local air quality is a major consideration in any assessment of potential capacity increases. Although today's aircraft are up to 70% more efficient than early jets and the science involved with emissions is still developing, aviation is viewed as a small contributor to climate change. Our FY 2004 performance target was to improve aviation fuel efficiency per revenue plane-mile by 1% per year through FY 2008, as measured by a three-year moving average based on calendar years 2000 through 2002. We exceeded our goal. Relative to the baseline, the calculated fuel efficiency for FY 2004 was a 4.5% improvement.



- **Annual Service Volume:** The annual service volume goal is in place to prevent unreasonable delays at airports and expand the number of runways at several of the 35 Operational Evolution Plan (OEP) airports. We achieved our goal by opening two new runways, increasing annual service volume by 1.07% measured as a five-year moving average. These runways will accommodate an additional 370,000 annual operations.
- **Operational Availability:** Sustaining operational availability at 99.00% is another key component of FAA's *Flight Plan* goal of reducing aviation delays. FAA focuses on each OEP airport's reportable facilities, factoring in standard maintenance procedures, as well as long-term airport construction that can cause runway shutdowns. A subset of the national airspace system is analyzed to determine the ratio of total operating facility/service hours to maximum facility/service hours, expressed as a percentage. We did not achieve our goal because of a 0.38% increase in scheduled downtime from improvement projects. Operational availability at all 35 OEP airports was 98.95% for FY 2004, slightly below our goal.



FAA's Operational Evolution Plan (OEP): A Vision for Tomorrow

To deal with the challenges presented by growing demand for air travel, we worked with the entire aviation community to create a blueprint that will guide our efforts to enhance and modernize the airspace system. In June 2001, we released the OEP—a dynamic, comprehensive, and integrated document that uses an evolutionary, one-step-at-a-time approach to modernization. New runways, new routes, new tools, and airspace redesign are the core changes OEP addresses in this 10-year strategic plan.

OEP specifically addresses the capacity challenges faced by the country's 31 large hub airports and 4 medium hub airports (Memphis, TN; Reagan National in Washington, DC; Cleveland, OH; and Portland, OR). These airports are referred to as the 35 OEP airports in several of FAA's FY 2004 capacity goals.

Each set of solutions outlined in OEP represents the aviation community's commitment to make investments and implement changes that will increase capacity and enhance efficiency to create an aviation system for the future. OEP is available on the FAA website at www.faa.gov/programs/oep/.

On-Time Arrivals

As air traffic volume continued to return to pre-September 11, 2001, levels, delays have increased. To respond to this increase, we continued to focus on easing congestion in eight metropolitan areas by improving overall capacity at the nation's top 35 airports, building new runways, enhancing access to reliever airports for general aviation operations, and increasing traffic coordination and communication through new technologies.

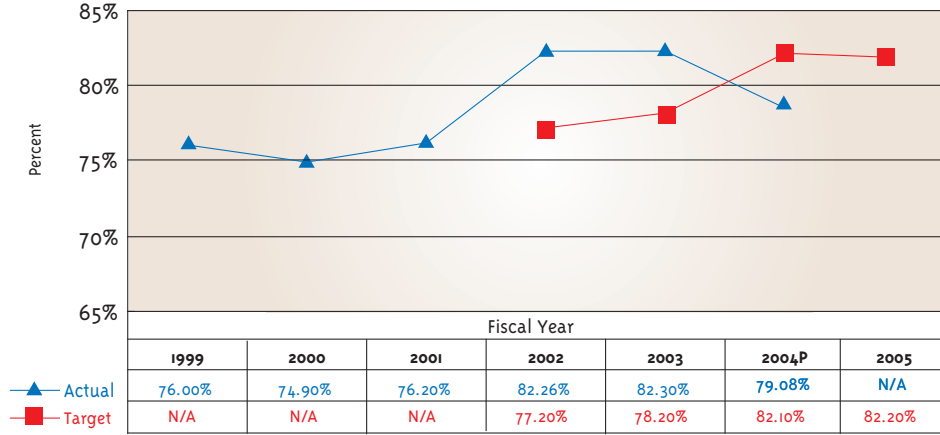
We did not meet our FY 2004 on-time target of 82.10%. Our failure was due primarily to a significant increase in adverse weather from May through August 2004, which caused a 72.5% increase in weather-related delays for that period as compared with the previous year. Congestion delays at Chicago's O'Hare also played a significant role in causing systemwide delays. To improve on-time performance in FY 2005, we established an agreed upon ceiling with air carriers on scheduled hourly flights at O'Hare and continued efforts to improve performance during adverse weather. Physical capacity improvements at airports and collaborative efforts between FAA and the airlines to improve performance are ongoing.

Aircraft Noise Exposure

Public concern over and sensitivity to aircraft noise around airports are high. In recent years, noise complaints have increased even as quieter aircraft have been introduced. Aircraft noise is an undesired by-product of our mobility, and the government acts to reduce the public's exposure to unreasonable noise levels. In the past decade, the phase-out of noisier commercial aircraft was principally responsible for the reduction in the number of people exposed to high levels of aircraft noise, although efforts were complemented by noise compatibility projects funded under the Airport Improvement Program (AIP). While the new international aircraft noise standard will encourage the introduction of quieter aircraft, AIP-funded noise compatibility projects will be the principal means used by government to mitigate significant exposure to aircraft noise. We exceeded this performance target by reducing the percentage of people exposed to significant noise by 9% in FY 2004, for a cumulative reduction of 23% from the baseline.

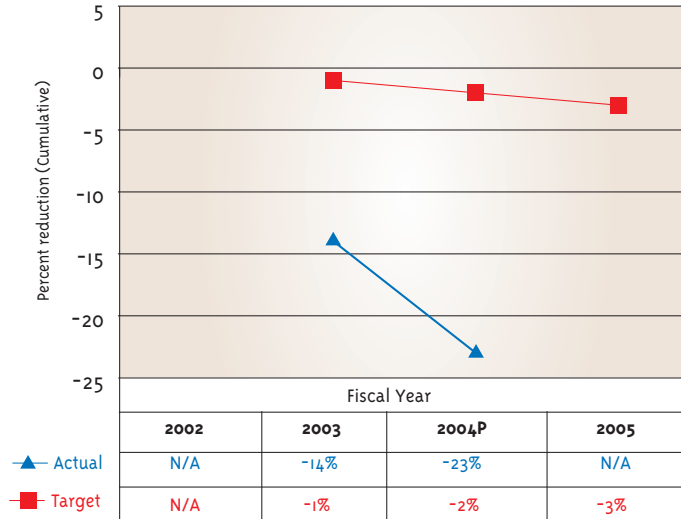
We are beginning a multiyear effort to update our noise model—MAGENTA (Model for Assessing the Global Exposure of Noise because of Transport Airplanes). These changes result from a combination of improvements in data sources and acoustic algorithms in the model. This effort will produce significant improvement in our ability to measure the number of people exposed to significant noise levels around U.S. airports. We will adopt a new performance metric report that uses percentage change in noise exposure to make it consistent with the *Flight Plan*. We will also use the projection analysis as a tool to assist us in an ongoing assessment of our noise targets.

Percent of On-Time Arrivals by Year



P= Preliminary. Data available November 2004.

Percent Reduction in Number of People Exposed to Significant Noise



P= Preliminary. Data available May 2005.

Airport Daily Arrival Capacity

We increased long-term capacity throughout the system due, in large part, to two major new runways that were commissioned in Houston, TX, and Orlando, FL, in FY 2004. The Operational Evolution Plan (OEP), our long-range plan for expanding capacity in national air space, currently identifies seven additional air carrier runways to be commissioned through 2014, allowing these airports to accommodate an additional 889,000 operations each year. Because constructing new runways is the most effective way to add ground capacity, particularly at the Nation's larger airports, we are also improving the criteria for assessing the capacity of our larger airports and their ability to meet projected demand. This information, in turn, will be used to target efforts to use pavement, procedures, and technology to add capacity at airports with the greatest need and with the most potential to reduce delays nationwide.

We will continue to develop and deploy technology that enables aircraft to safely take off and land in adverse weather. We will also focus on adding runways, new terminal technologies, and improved data collection to meet future capacity performance targets.

We exceeded our target of 51,332 arrival positions for the 35 OEP airports. Preliminary data indicate that arrival capacity at the 35 busiest airports was 51,587 per day. We did not, however, meet our FY 2004 target for capacity of 21,290 in the eight metropolitan areas. Runway construction at Washington Dulles and Boston's Logan International Airport markedly reduced arrival capacity in May, with lower capacity available in selected metropolitan areas because of the increased occurrence of adverse weather during the summer. Capacity was above the target levels in the closing months of the year, however.

Airport Arrival Efficiency Rate

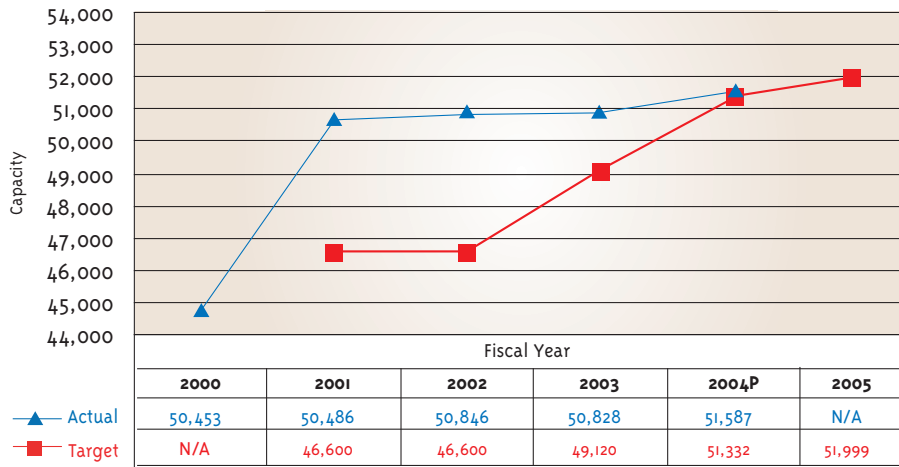
This rate measures how well the 35 OEP airports use their existing capacity. An efficient aviation system gets passengers and goods to their destinations safely and reliably. Aviation system improvements must be environmentally responsible, taking into consideration the impact of aviation development on communities near airports and on sensitive natural resources. Our focus is on the strategic expansion of system capacity and other creative solutions to address growing mobility needs and increase the reliability of the system.

We did not meet our FY 2004 target of 95.67%. The arrival efficiency rate compares landed aircraft in a specific time frame with the lesser of demand or arrival capacity. The increased adverse weather experienced in 2004 reduced timely aircraft landings and increased the level of demand (aircraft not landed when originally scheduled may be "held over" successive periods), thus reducing the rate.

We are implementing procedures to standardize the compilation of airport arrival rates, which will help aircraft flow control and improve arrival rates.

Airport Daily Arrival Capacity

35 OEP Airports

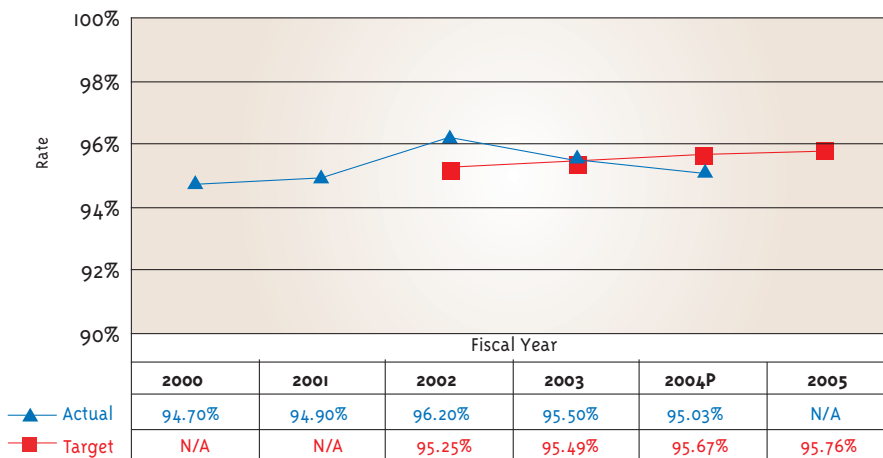


P= Preliminary. Data available November 2004.

Note: Prior to FY03, the calculations for these outcomes were based on 32 HUB airports. From 2003 on, the calculations were based on 35 OEP airports. The totals for the prior years have been recalculated.

Airport Arrival Efficiency Rate

35 OEP Airports



P= Preliminary. Data available November 2004.

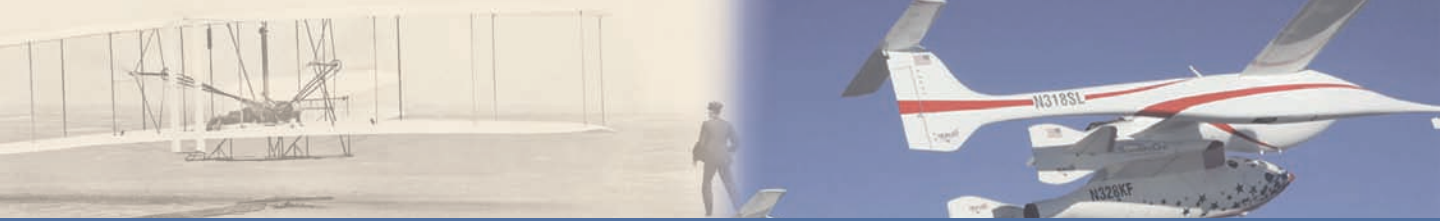
INTERNATIONAL LEADERSHIP

GOAL: Increase the safety and capacity of the global civil aerospace system in an environmentally sound manner.

The United States has long been a leader in the global civil aviation system. In addition to controlling nearly half the world's air traffic, FAA provides direct and indirect aviation assistance to 129 countries. As a leader, we must promote safety by broadening the international network of partnerships with civil aviation authorities around the world to make air travel as safe and efficient abroad as it is at home.

We assess international performance through six performance measures: Intellectual and Financial Assistance, Bilateral Agreements, Technical Assistance, Technology and Procedures, Global Environmental Standards, and Required Vertical Separation Minimum (RVSM). We met or exceeded all of our FY 2004 performance goals for international leadership. Among our achievements in this goal area, we

- Directed \$13.8 million in funding to support 14 key aviation infrastructure and development projects in the Americas, Asia, and Africa to improve aviation safety; promote the use of new technologies; enhance efficiency; and encourage regional technical cooperation.
- Promoted improved safety and regulatory oversight through the conclusion of new Bilateral Aviation Safety Agreements with key countries.
- Provided a range of technical assistance and training through 50 separate projects to improve aviation safety and system efficiency in 30 countries.
- Worked with international agencies, organizations, and states to enhance the international leadership role of the United States by having a positive influence on critical technological issues.
- Collaborated with ICAO to: (1) reach an agreement on new nitrogen oxide emissions standards for commercial aircraft engines, (2) adopt guidance on the Balanced Approach to Noise Management, and (3) support development of voluntary measures as a viable alternative to mandatory emissions trading schemes or charges. We exceeded our target, achieving all three outcomes.
- Worked with other countries to implement the RVSM. The RVSM goal is to reduce the vertical separation above 29,000 feet from the current 2,000-foot minimum to a 1,000-foot minimum. This will allow aircraft to safely fly the most efficient routes, gain fuel savings, and increase airspace capacity.



ORGANIZATIONAL EXCELLENCE

GOAL: Ensure the success of FAA's mission through stronger leadership, a better trained workforce, enhanced cost-control measures, and improved decision making based on reliable data.

Organizational excellence is an ongoing challenge. Our performance measures this year continued with an external focus on improving customer satisfaction and the launch of a more concerted internal focus on improving our business processes. These internal improvements included better management of our acquisitions, faster hiring for mission critical positions, strengthening the linkage between employee performance and agency goals, shoring up the security of our information, and reducing costs.

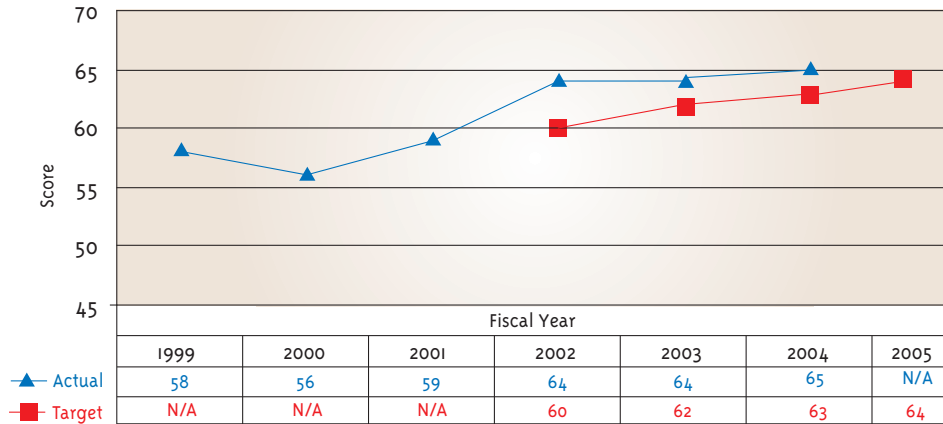
Our organizational excellence performance targets for FY 2004 included:

- **Acquisitions:** Our FY 2004 goal was to achieve 80% of designated milestones and maintain 80% of critical program costs for acquisitions within 10% of the budget as published in the Capital Investment Plan. We achieved this goal with 91% of major system acquisitions remaining within the cost and schedule performance goal.
- **Cost Reimbursable Contracts:** There were 459 cost reimbursable contracts overdue for closeout in FY 2001. Our FY 2004 target was to close out 180 of these contracts (45 per quarter). By the end of the year, we had closed out a total of 311 cost reimbursable contracts, 135 of which were included in the FY 2001 baseline count. We also closed out 58 contracts that became overdue after the FY 2001 baseline was established. In addition, we closed out 118 contracts that were not yet overdue. While we were not able to close out 100% of the 180 targeted contracts, we did demonstrate our ability to achieve timely closure of future contracts.
- **Customer Satisfaction:** In FY 2004, we achieved a score of 65 on our survey of commercial pilots' satisfaction with our services, certification processes, and regulations, exceeding our target of 63. This was our third consecutive score in the mid-60s, a significant improvement over those achieved in the previous three years (see graph on page 27).
- **Cost Control:** We reduced the unfunded portion of the programs and initiatives in the *Flight Plan* by integrating an agency-wide cost control program designed to maximize savings. We are working on cross-organizational initiatives focused on controlling operational costs, starting with an emphasis on information technology (IT).

MANAGEMENT'S DISCUSSION AND ANALYSIS

- **Information Security:** We continued working to protect our IT assets in accordance with numerous executive and congressional requirements. Noteworthy is the fact that we assisted DOT in achieving a “green” status on the President’s Management Agenda’s e-Gov goal, and the Office of Inspector General (OIG) removed the material weakness condition in cyber security in its FY 2004 submission to the Office of Management and Budget (OMB).
- **Performance Plans:** Our FY 2004 target for this goal required 80% of employee performance plans to be directly related to FAA strategic goals and to the performance plan of employees’ organizations. By the end of the year, 84.56% of employees, managers, and executives had individual performance plans linked to the strategic goals in the *Flight Plan* and organizational business goals.
- **Mission Critical Positions:** This performance target measures the time to fill all competitive FAA mission critical positions, including air traffic controllers, transportation specialists, engineers, flight inspectors, IT personnel, and engineering and electrical technicians. Our FY 2004 target for filling mission critical positions was 79 days, which represents a 3% reduction from the baseline of 81 days established in FY 2003. We exceeded our target of completing the hiring process for mission critical positions within 79 days. For FY 2004, it took a median of 58 days to fill these positions, excluding air traffic controller slots.
- **FAA Flight Plan:** We established a target of achieving 27 out of 30 performance goals in our FY 2004 *Flight Plan*. Although we did achieve 80% (24 of 30) of our performance goals this year, we did not meet our target of 90% (27 out of 30).

Customer Satisfaction Survey of Commercial Pilots



Customer Satisfaction—Commercial Pilots

Over the past six years, we have used the American Customer Satisfaction Index (ACSI) to measure U.S. commercial pilots' satisfaction with FAA services. The ACSI is a national indicator of the quality of goods and services available to the American public. It is a weighted average measuring overall satisfaction, customer expectations, and perceived quality. Commercial pilots are asked about air traffic control personnel and services, pilot certification processes, the clarity of regulations and how they contribute to aviation safety. We exceeded our FY 2004 target of 63, achieving an ACSI score of 65. This year's results show that the stabilized improvement in 2002 and 2003 continued into 2004. While satisfaction of commercial pilots has remained in the mid-60s for the past three years, it is significantly higher than the levels achieved in the first three years of the study.

MANAGEMENT CHALLENGES

FAA faced a number of management challenges in FY 2004. Some were challenges that the DOT Office of Inspector General (OIG) identified; others were DOT challenges that FAA had a role in addressing. A detailed discussion of this second group of challenges appears in DOT's *FY 2004 Performance and Accountability Report*. These challenges and our plans for addressing them are also summarized in our *FY 2004 Performance and Accountability Report*, which is available on our website at www.faa.gov/aba/html_fm/files_pdf/2004_PAR.pdf.

FINANCIAL HIGHLIGHTS



A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

November 1, 2004

I joined FAA in April 2004 after a long career as the Chief Financial Officer for major corporations, including airlines, in the private sector. During that career, I met and managed many exceptional and dedicated people. Over the past several months, I have found my new colleagues to be among the most visionary and committed I have ever encountered, and I am impressed by FAA's already high levels of performance and accountability.

When I came to FAA, my mandate from Administrator Blakey was to improve financial discipline at the agency and to implement financial management best practices from the private sector. Over the past six months, we have made significant progress in achieving these objectives. Among our accomplishments in FY 2004, we

- Successfully implemented DELPHI, DOT's integrated financial management system. DELPHI integrates acquisition, property accounting, and cost accounting and is compliant with the U.S. Government Standard General Ledger at the transaction level. Thus we have made significant progress toward meeting the requirements of the Federal Financial Management Improvement Act of 1996.
- Received an unqualified opinion on our financial statements, with no material internal control weaknesses. FY 2004 marks the fourth consecutive year in which FAA has received an unqualified audit opinion and the second year in which there has been no material weakness.
- Closed our books and prepared our year-end financial statements more quickly than ever before, completing work in October 2004.
- Worked to remove last year's FMFIA material weakness in the area of contract closeouts. While we made significant progress in this area, we did not meet our internal FY 2004 performance target of closing out 100% of cost reimbursable contracts. Many of the contracts under review are more than 20 years old and present a significant challenge. During the next year, we will concentrate on further improving our performance in closing out current contracts while we attempt to locate information on older contracts. We are confident that our increased efforts in this area will enable us to achieve our FY 2005 performance goal.
- Were honored with a Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants for our *FY 2003 Performance and Accountability Report*. FAA was 1 of only 10 Federal agencies to receive this distinction. This accomplishment, of which we are all justly proud, demonstrates that FAA's business practices are equal to or better than those found in many of today's large corporations.
- Continued our organizational transformation by initiating the consolidation of the accounting operations of nine FAA regional locations into a single center. This consolidation will enable us to provide more timely and accurate cost and accounting data to FAA leadership while realizing cost synergies.

Because of our hard work throughout the year, FAA has a modern financial management system that fully integrates acquisition, property, and cost accounting. We can now provide our managers with better information about the real costs of our programs and initiatives. Better information leads to more effective planning, which in turn leads to improved management of our budget. The firm foundation we are building will enable us to meet one of the greatest challenges we face in the years to come—improving aviation safety in the United States and around the world, increasing capacity, and managing our business more effectively while facing a shrinking budget and ever-tighter reporting deadlines.

We made significant progress last year—not only in modernizing our technology and systems, but also in changing our culture. FAA has laid the groundwork for greater success in helping the world chart the next 100 years of flight.



Ramesh K. Punwani
Assistant Administrator for Financial Services and Chief Financial Officer



Chief Financial Officer Ramesh Punwani oversees FAA's \$14 billion budget, as well as the development and agency-wide application of cost accounting and financial management systems. Punwani came to FAA from Cendant Corporation, where he was Senior Vice President for Global Strategy.

FINANCIAL HIGHLIGHTS

Highlights of our FY 2004 financial performance appear on the pages that follow. For a more detailed discussion of FAA's financial statements and accompanying highlights, see our *FY 2004 Performance and Accountability Report*, which is available on the FAA website at http://www.faa.gov/aba/html_fm/files_pdf/2004_PAR.pdf.

Approximately 78% of FAA's FY 2004 budget is provided by the Airport and Airway Trust Fund, which derives its monies from excise taxes and interest generated by the fund. Created by the Airport and Airway Revenue Act of 1970, the trust fund provides a stable source of monies to finance investments in the airport and airway system and, to the extent funds are available, covers the operating costs of the airway system. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation fuel/gas, and international departures and arrivals, are deposited into the fund. The Department of the Treasury maintains the fund and invests its monies in government securities. Any interest is deposited into the fund. Monies are withdrawn as needed and transferred into each FAA appropriation to cover obligations.

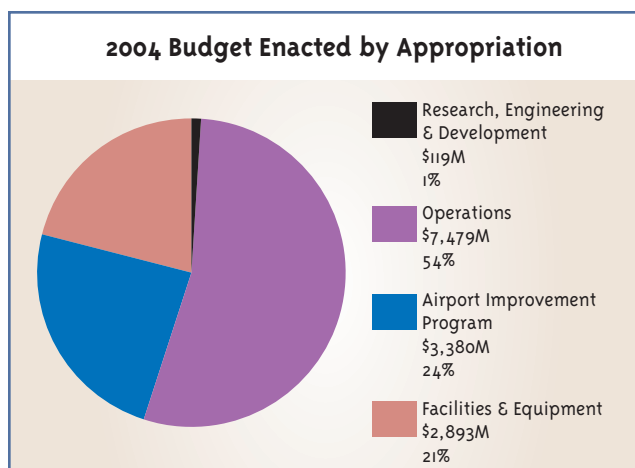
FAA is financed through annual and multiyear appropriations authorized by Congress. The FY 2004 enacted budget, \$13.9 billion, is 2.7% above the FY 2003 level. The FY 2004 levels include an across-the-board rescission of 0.59% and \$1.98 million in other budget authority for Fort Worth Alliance included in Grants-in-Aid for Airports.

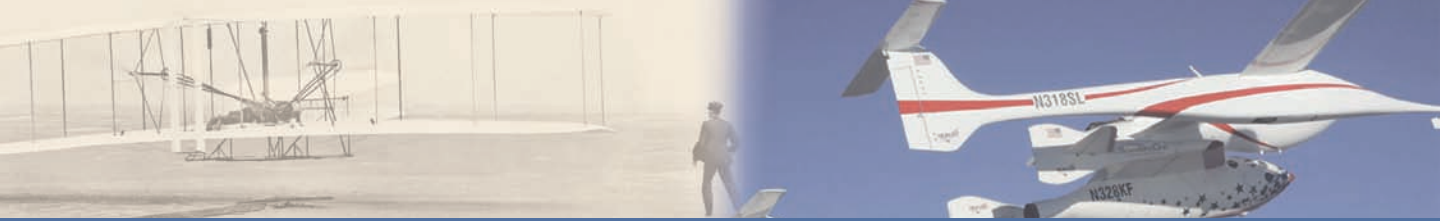
FAA has four appropriations; the largest—Operations—is funded by the Treasury's General Fund and a portion from the Airport and Airway Trust Fund. The trust fund is the sole revenue

source for FAA's three capital investment appropriations: (1) Facilities and Equipment (F&E); (2) Research, Engineering, and Development (R,E&D), and (3) Grants-in-Aid for Airports (AIP).

Our Operations appropriation was \$7.5 billion. FAA's capital appropriations, F&E was funded at \$2.9 billion, Grants-in-Aid for Airports at \$3.4 billion, and R,E&D at \$119.0 million.

Operations. The Operations appropriation funds the salaries and costs associated with operating and maintaining the air traffic con-





tol system and carrying out our safety inspection and regulatory responsibilities. This account funds the operations, maintenance, communications, and logistical support of the air traffic control and air navigation systems. It also covers administrative and managerial costs for FAA's regulatory, international, medical, engineering, and development programs, as well as policy oversight and overall management functions. Funding in FY 2004 represents a 6.6% increase that is primarily attributable to mandatory pay increases and the operations and maintenance of newly implemented air traffic control systems.

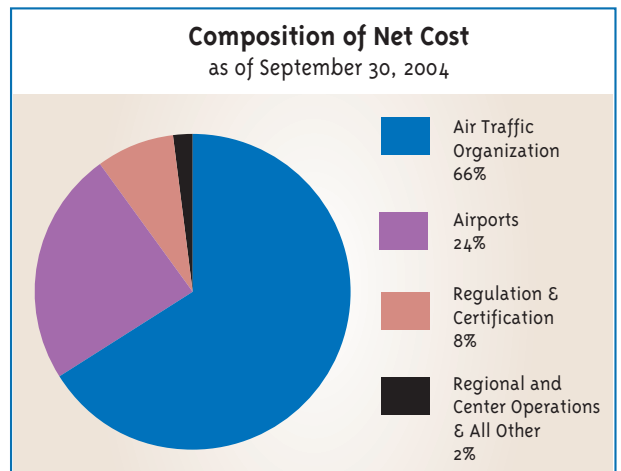
F&E. The F&E account is the principal means for modernizing and improving air traffic control and airway facilities. It finances major capital investments required by other agency programs and other improvements to enhance the safety and capacity of the national airspace system. Funding in FY 2004 was about 2% less than the FY 2003 level. Major systems funded are En Route Automation, Terminal Automation, Oceanic Automation, Wide-Area Augmentation System, ASDE-X, Airport Surveillance Radar, and Free Flight Phase 2.

AIP. FAA's grants program funds airport planning and development, noise compatibility and planning, the military airport program, reliever airports, and airport program administration. These grants make it possible to fund one-fourth to one-third of all capital development at the Nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. AIP funding was essentially unchanged from FY 2003 and for the third consecutive year included approximately \$20 million for the Small Community Air Service program.

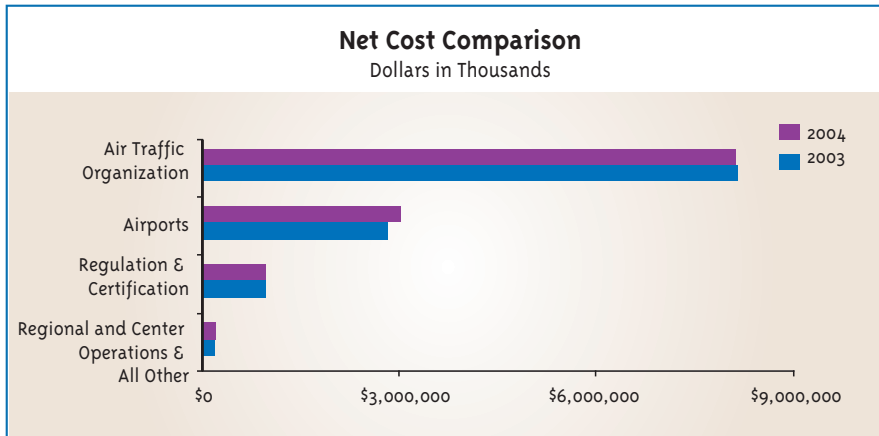
R,E&D. The R,E&D appropriation funds long-term research programs to improve the air traffic control system. Funding for R,E&D decreased \$28.8 million from the previous year. The appropriation funding is focused on environment and energy, weather initiatives, human factors, and aircraft safety.

FAA's summarized net cost of operations is shown on page 37. For the fiscal years ending September 30, 2004 and 2003, FAA's net cost of operations totaled \$12.2 billion and \$12.0 billion, respectively. Net cost is total program cost less related earned revenue.

The **Composition of Net Cost** chart illustrates the distribution of net costs among FAA's lines of business. The **Net Cost Comparison** chart



FINANCIAL HIGHLIGHTS

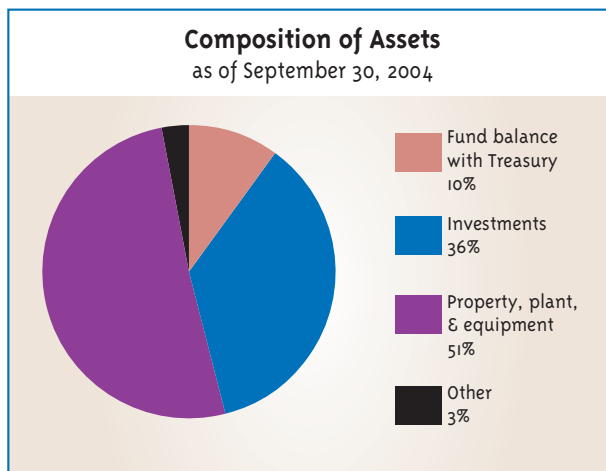


compares FY 2003 and FY 2004 net costs.

With a net cost of \$8.1 billion, the **Air Traffic Organization** is FAA's largest line of business, comprising 66% of total net cost. The net cost of **Regulation and Certification** represents 8% of FAA's total net cost, while **Regional and Center Oper-**

ations and All Other comprise 2% of total net cost. The net costs of these three components were relatively unchanged from FY 2003 to FY 2004.

With a net cost of \$3.0 billion in FY 2004, which is 24% of FAA's total net cost, **Airports** is FAA's second largest line of business. Net cost increased \$190.6 million, from \$2.8 billion in FY 2003. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) increased Airport Improvement Program funding by \$725.0 million in FY 2001. Funding levels for Airports programs have continued to increase by \$100 million or more each year since that time. Airport improvement projects typically take several years to complete, and FAA reports the associated expense as the grant recipient accomplishes the improvement work. Thus, FAA's net Airport costs increased in FY 2004, as the project lifecycle associated with these grants continued.



FAA's summarized assets, liabilities, and net position are shown on page 38.

Total assets were \$28.6 billion at the end of FY 2004. FAA's assets are the resources available to pay liabilities or satisfy future service needs. The **Composition of Assets** chart depicts major categories of assets as a percentage of total assets.

The **Assets Comparison** chart presents comparisons of major asset balances as of September 30, 2003 and 2004.

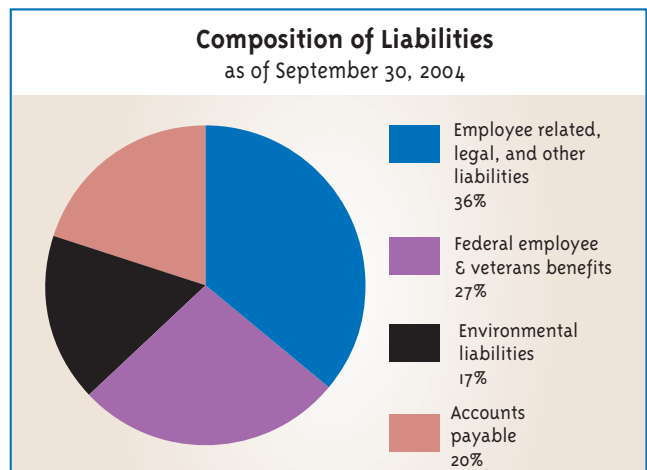
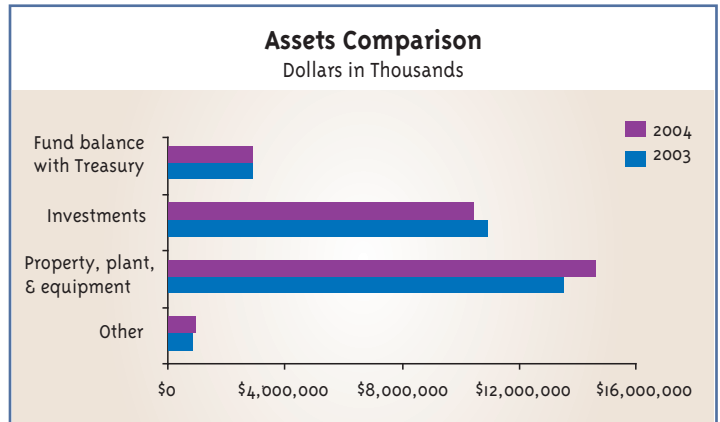
Fund balance with Treasury represents 10% of FAA's current year assets and consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF), but not yet invested.

At \$10.3 billion, **Investments** represent 36% of current year assets and are principally derived from passenger ticket and other excise taxes deposited to the AATF. These amounts are used to finance operations to the extent authorized by Congress. Investments decreased \$501 million due to a reduction in tax revenues deposited into the AATF in FY 2004.

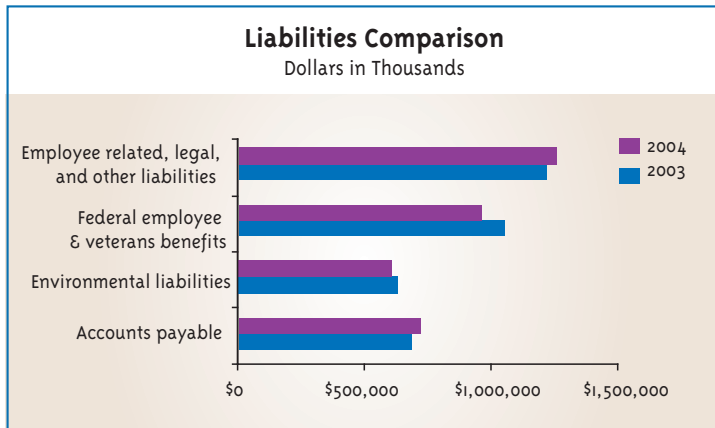
At \$14.5 billion, **Property, plant, and equipment (PP&E)** represents 51% of FAA's assets as of September 30, 2004, and primarily comprises construction-in-progress related to the development of national airspace system assets and capitalized real and personal property. Increases in PP&E are primarily related to purchases of equipment and additions to construction-in-progress through the normal course of business during FY 2004.

At the end of FY 2004, FAA reported liabilities of \$3.5 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The **Composition of Liabilities** chart depicts FAA's major categories of liabilities as a percentage of total liabilities. The **Liabilities Comparison** chart presents comparisons of major liability balances between FY 2003 and FY 2004.

At \$1.2 billion, **Employee related, legal, and other liabilities** represent 36% of total liabilities. While this overall category of liabilities was relatively constant from FY 2003 to FY 2004, several components experienced variations that offset in the aggregate. Accrued payroll, benefits,



FINANCIAL HIGHLIGHTS



and annual leave increased because there were a greater number of unpaid days of payroll at the end of FY 2004 and employee leave balances grew. In contrast, legal liabilities decreased due to settlements of several claims.

At \$954.5 million, **Federal employee and veterans benefits** represent 27% of current year liabilities and consist of FAA's expected liability for death, disability, and medical costs for approved workers' compensation cases, plus a component for incurred, but not

reported, claims. The Department of Labor calculates the liability for DOT, and DOT attributes a proportionate amount to FAA based upon actual workers' compensation payments to FAA employees over the preceding four years.

Environmental liabilities represent 17% of FAA's total liabilities and were relatively stable at \$606.3 million as of September 30, 2004, and \$622.0 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

Accounts payable represent 20% of liabilities. We made a concerted effort to pay down these liabilities at the end of FY 2003 in anticipation of converting to a new financial management system. Thus, at \$679.0 million as of September 30, 2003, accounts payable was \$31.0 million less than the same date one year later.

FAA's summarized changes in net position are shown on page 39. Net position increases from the beginning to the end of the reporting period by various financing sources received, offset by the agency's net cost of operations, which serves to reduce net position. FAA's net position increased during FY 2004, from \$24.3 billion as of September 30, 2003, to \$25.1 billion as of September 30, 2004, because financing sources exceeded net cost of operations.

SUMMARY FINANCIAL INFORMATION

FAA's independent auditor, KPMG LLP, rendered an unqualified audit opinion on FAA's FY 2004 financial statements. The DOT Office of Inspector General presented KPMG's audit report to the FAA Administrator on November 10, 2004.

The summary financial information was derived from the FAA's audited FY 2004 and FY 2003 financial statements, which were prepared pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

Summarized Net Cost of Operations presents the annual cost of operating FAA's lines of business.

Summarized Assets, Liabilities, and Net Position presents the resources available to use (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

Summarized Changes in Net Position represents the difference between FAA's financing sources and its net cost of operations.

The audited consolidated financial statements are contained in the FAA's *FY 2004 Performance and Accountability Report*, which is available from:

Office of Financial Management, AFM-1
Federal Aviation Administration
800 Independence Avenue, SW
Washington, DC 20591
E-mail address: Susan.Lee@faa.gov
Fax number: (202) 267-5271

FAA's *FY 2004 Performance and Accountability Report* is also available on the Internet at http://www.faa.gov/aba/html_fm/files_pdf/2004_PAR.pdf.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Administrator, Federal Aviation Administration:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Federal Aviation Administration (FAA) as of, and for the years ended, September 30, 2004 and 2003 (not presented herein) and have issued our report thereon dated November 1, 2004.

The accompanying summary financial information of the FAA as of, and for the years ended, September 30, 2004 and 2003, as explained in the notes thereto, is not a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying summary financial information is fairly stated, in all material respects, in relation to the portion of the financial statements from which it has been derived.

KPMG LLP

November 1, 2004

KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

Federal Aviation Administration

**Summarized Net Cost of Operations
For the Years Ended September 30**
(dollars in thousands)

	2004	2003
Lines of Business		
Air Traffic Organization	\$ 8,079,011	\$ 8,098,696
Airports	2,977,068	2,786,493
Regulation and Certification	939,728	942,009
Commercial Space Transportation	12,527	11,725
Non Line of Business Programs		
Regional/Center Operations and Other	185,660	112,413
Net Cost of Continuing Operations	<u>12,193,994</u>	<u>11,951,336</u>
Net Cost of Transferred Operations		
Civil Aviation Security	-	47,250
Net Cost of Operations	<u>\$ 12,193,994</u>	<u>\$ 11,998,586</u>

Notes to the Summary Financial Information

Reporting Entity. FAA, created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA accomplishes its mission through different lines of business.

- **Air Traffic Organization (ATO)** operates the Nation's air traffic control system and conducts research to meet increasing demands for higher levels of system safety, efficiency, and environmental improvement. ATO plans, monitors, controls, schedules, and implements the acquisition of materiel, equipment, and services for the national airspace system and for interagency and international programs.
- **Airports** is responsible for planning and developing a safe, secure, and efficient airport system; enhancing environmental quality and avoiding or minimizing adverse environmental impacts that might result from a proposed FAA action in support of airport development; and developing standards for the design and construction of facilities that enhance the safety of aircraft operations and security of airline passengers.
- **Regulation and Certification** oversees the safety of aircraft and the credentials and competency of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make air travel among the safest modes of transportation in history.
- **Commercial Space Transportation** oversees the safety of commercial space launches and regulates the commercial space industry.
- **Regional/Center Operations and Other** includes the costs to operate the FAA's nine regional offices and the Mike Monroney Aeronautical Center.

Basis of Presentation. The summary financial information is intended to provide users an overview of the financial status and activities of FAA and is derived from and should be read in conjunction with the financial statements contained in FAA's *FY 2004 Performance and Accountability Report*. The summary financial information is not a presentation in accordance with accounting principles generally accepted in the United States of America.

SUMMARY FINANCIAL INFORMATION

Federal Aviation Administration

Summarized Assets, Liabilities, and Net Position As of September 30 (dollars in thousands)

	2004	2003
Assets		
Fund balance with Treasury	\$ 2,840,663	\$ 2,833,723
Investments	10,318,029	10,819,257
Accounts receivable, advances, and other, net	389,272	232,133
Inventory and related property	585,709	581,766
Property, plant, and equipment, net	14,469,731	13,397,607
Total Assets	\$ 28,603,404	\$ 27,864,486
Liabilities		
Accounts payable	\$ 710,046	\$ 679,017
Environmental cleanup costs	606,261	621,953
Employee related, legal, and other	1,246,553	1,203,992
Federal employee and veterans benefits	954,463	1,041,568
Total liabilities	3,517,323	3,546,530
Net Position		
Unexpended appropriations	999,146	562,595
Cumulative results of operations	24,086,935	23,755,361
Total net position	25,086,081	24,317,956
Total Liabilities and Net Position	\$ 28,603,404	\$ 27,864,486

Notes to the Summary Financial Information (continued)

Assets. *Fund balance with Treasury* consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. *Investments* consist primarily of Airport and Airway Trust Fund (AATF) excise tax collections, which Congress has not appropriated to FAA and which is invested in U.S. Treasury securities. *Accounts receivable, advances, and other, net* consist primarily of amounts owed to FAA by other Federal agencies and the public, and advance payments to other Federal entities for agency expenses not yet incurred, or for goods and services not yet received. *Property, plant, and equipment, net* consists primarily of equipment and related property that FAA uses to operate the Nation's air traffic control system. Repair parts, used to keep the air traffic control system operational, constitute the majority of *Inventory and related property*.

Liabilities. *Accounts payable* represents amounts owed to vendors for goods and services that FAA has received. *Environmental cleanup costs* represents the accrued costs to correct known environmental hazards and decommission existing assets. *Employee related, legal, and other* consists primarily of accrued personnel compensation and legal liabilities considered probable of loss. *Federal employee and veterans benefits* represents the actuarial liability for future benefits payable for death, disability, medical, and miscellaneous costs for FAA employees under the Federal Employees Compensation Act.

Federal Aviation Administration

Summarized Changes in Net Position
For the Years Ended September 30
(dollars in thousands)

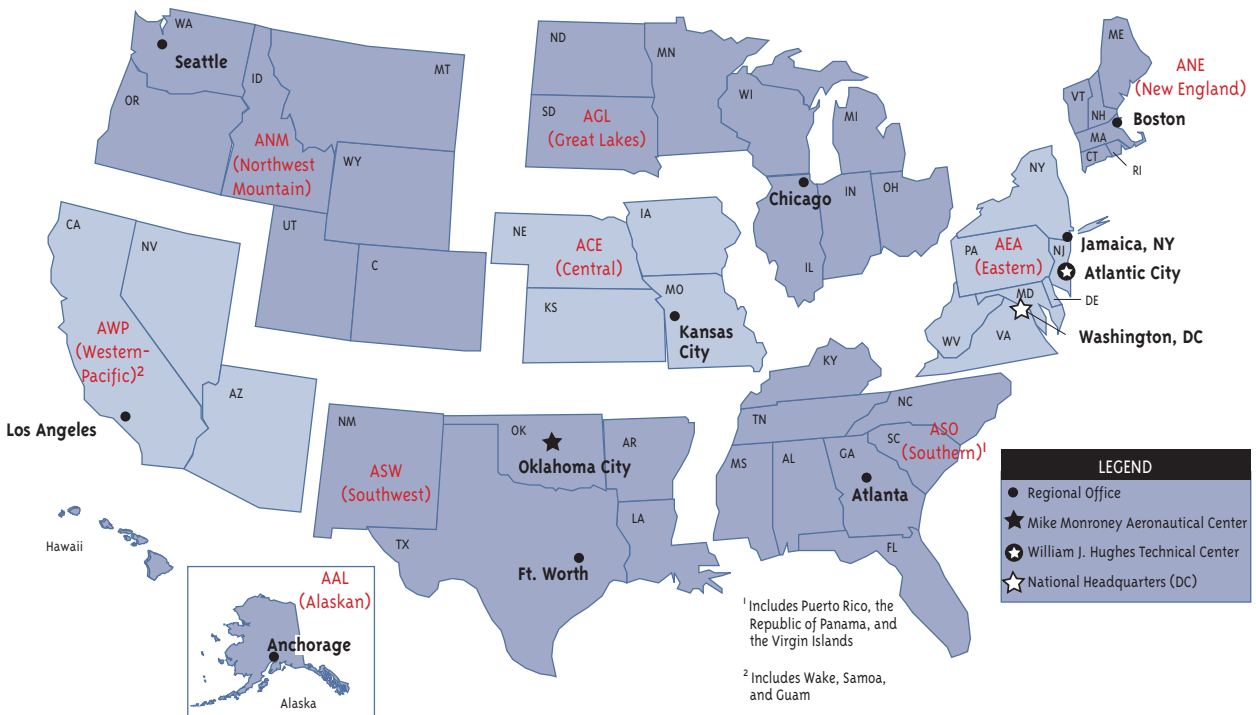
	2004	2003
Net Position - Beginning of Year	\$ 24,317,956	\$ 24,000,177
Financing Sources		
Excise taxes and associated revenue	9,674,509	9,360,469
Appropriations received	3,032,925	3,273,241
Net transfers out	(174,170)	(803,247)
Imputed financing and other	428,855	485,902
Total financing sources	12,962,119	12,316,365
Net Cost of Operations	(12,193,994)	(11,998,586)
Net Position - End of Year	\$ 25,086,081	\$ 24,317,956

Notes to the Summary Financial Information (continued)

Budgetary Financing Sources. FAA is funded primarily from excise taxes collected by the Internal Revenue Service from airway system users and deposited to the AATF. Annually, Congress enacts annual, multi-year, and no-year appropriations from the AATF and the General Fund of the U.S. Treasury to be used, within statutory limits, to fund FAA's net operating and capital expenditures. *Net transfers out* represent amounts transferred between FAA and other Federal entities. *Imputed financing and other* includes FAA costs paid by other Federal entities, such as the Office of Personnel Management, which funds a portion of retirement costs for Federal employees.

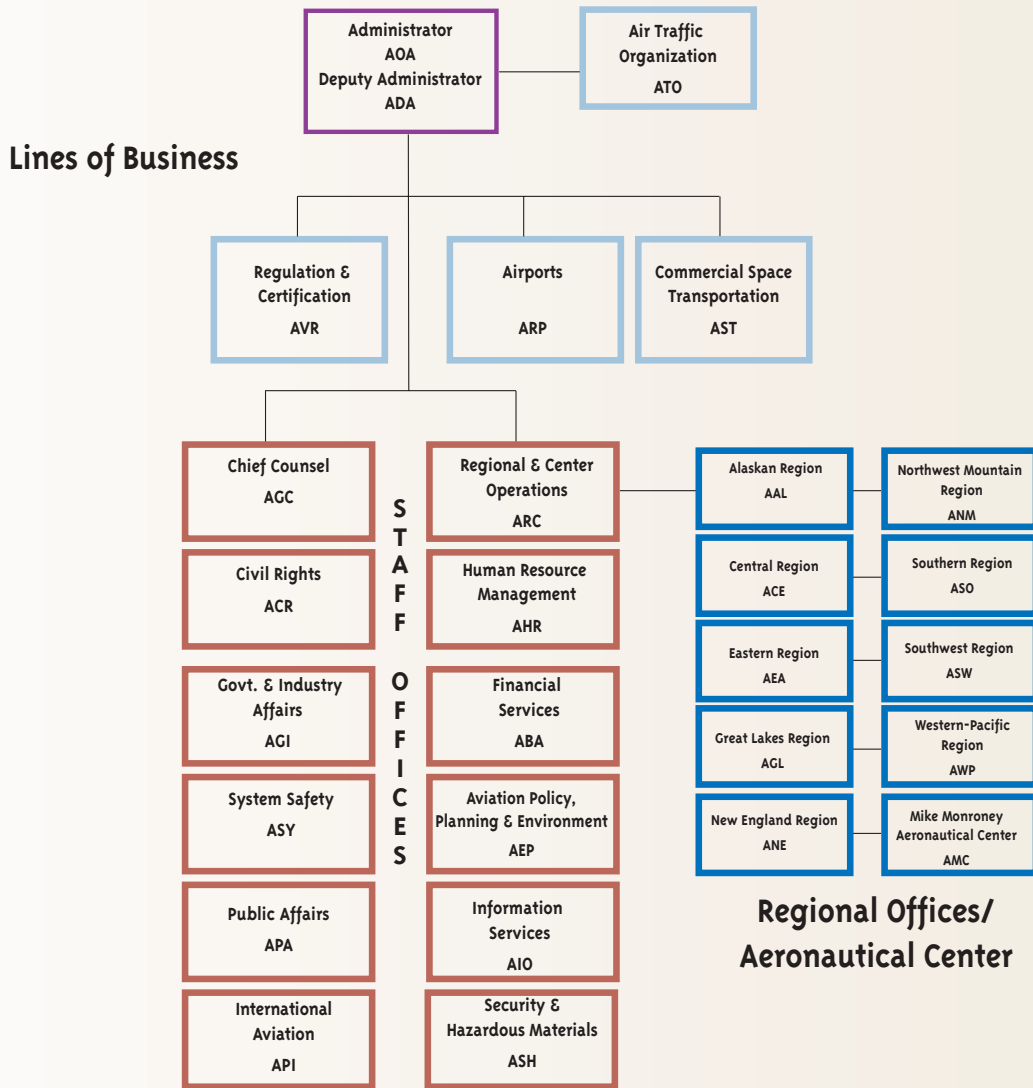
Net Position. Net position consists of unexpended appropriations and cumulative results of operations. As of September 30, 2004 and 2003, unexpended appropriations were \$999.1 million and \$562.6 million and cumulative results of operations were \$24,086.9 million and \$23,755.4 million, respectively. Cumulative results of operations represent certain assets of the FAA, less liabilities that will be funded by future budgetary resources and congressional appropriations.

FAA REGIONAL MAP



FAA employees work at headquarters in Washington, DC, in 9 regional offices, and other facilities throughout the country and around the world. FAA fulfills its mission through four lines of business that work together to create and maintain the world's preminent national airspace system.

FEDERAL AVIATION ADMINISTRATION ORGANIZATIONAL CHART



FAA's organization chart shows how the agency is structured to achieve its mission and deliver results.

ACKNOWLEDGMENTS

This *FY 2004 Performance and Accountability Highlights* brochure is a collaborative endeavor on the part of many, many FAA employees and contractors. We would like to acknowledge and thank them for their hard work and commitment in successfully preparing this report and supporting the audit of the financial statements.

www.faa.gov



U.S. DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration
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An electronic copy of this document is available at http://www.faa.gov/aba/html_fm/files_pdf/2004_HI.pdf

For copies of previous years' Performance and Accountability Reports, you may access http://www.faa.gov/aba/html_fm/finst.html.